

Message Text

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ACTION SS-30

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FM AMEMBASSY KINGSTON

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S E C R E T KINGSTON 1492

EXDIS

E.O. 11652: GDS

TAGS: EFIN, EMIN, US, JM

SUBJ: BAUXITE NEGOTIATIONS SITREP 32: EYEBALL TO EYEBALL

1. SUMMARY: LAST NIGHT INDUSTRY RAISED ITS OFFER AND SWEETENED IT WITH ESCALATION CLAUSES AND A PROMISE OF EXPANDING ALUMINA REFINING IN CAPACITY IN JAMAICA. NEW OFFER REJECTED OUT OF HAND BY GOVT NEGOTIATORS AND AN IMPASSE HAS NOW DEVELOPED IN WHICH NO NEW MEETINGS ARE SCHEDULED BUT THE PRINCIPALS ARE STILL HERE.

2. IN A LENGTHY, STORMY, AND AT TIMES BITTER MEETING LAST NIGHT INDUSTRY REPS MADE A NEW REVENUE OFFER WHICH WOULD BRING JAMAICA REVENUES TO A TOAL OF APPROXIMATELY 80 MILLION DOOLARS PER YEAR AT ANTICIPATED PRICES FOR ALUMINUM. OFFER WAS FOR A LITTLE OVER \$5.00 PER LONG DRY TON OF BAUXITE, OR A LITTLE OVER 3PERCENT OF THE INGOT PRICE PER POUND OF ALUMINUM IN THE US. INDUSTRY OFFER INCLUDED ESCALATION CLAUSES DESIGNED TO INCREASE JAMACAN GOVT REVENUES IF ALUMINUM CONTINUED TO BENEFIT FROM MARKET PENETRATION AS A RESULT OF CONTINUING TO BE A RELATIVELY INEXPENSIVE MATERIAL. ANOTHER PROPOSED ESCALATION CLAUSE WAS DESIGNED TO EQUALIZE THE PRICE ENJOYED BY JAMAICA WITH THAT GOTTEN BY OTHER MAJOR PRODUCING COUNTRIES AFTER TRANSPORTATION COSTS AND SO ON HAD BEEN DISCOUNTED. THIS CLAUSE WAS DESIGNED TO PROTECT JAMAICA FROM THE THREAT OF THE INDUSTRY MAKING A BETTER DEAL ELSEWHERE. FINALLY, INDUSTRY OFFERED PROMISE OF SUBSTANTIAL EXPANSION OF ALUMINA REFINING CAPACITY, IN A JOINT VENTURE WITH THE GOJ.

3. GOVT INDICATED EXTREME DISAPPOINTMENT WITH THE INDUSTRY OFFER

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SAYING IT WA SIMPLY NOT RESPONSIVE WHEN COMPARED TO A DEMAND NEARLY

THREE TIMES ITS SIZE. OFFER WAS SIMPLY SWEEPED ASIDE WITH LITTLE OR NO DISCUSSION. GOVT SHOWED INTEREST IN THE ESCALATOR CLAUSE TIED TO MARKET PENETRATION AND IN THE POSSIBILITY OF INCREASED PRODUCTION. THEY WERE ENRAGED, HOWEVER, BY THE PROPOSAL TO KEY JAMAICAN REVENUES TO THE PRICE FOR BAUXITE OBTAINED BY OTHER BAUXITE PRODUCERS. THE REASONS FOR THEIR DISTRESS ARE FAR FROM CLEAR SINCE THE INDUSTRY CONCEIVED OF THE PROPOSAL AS A MEANS OF PROTECTING JAMAICA FROM POSSIBLE SWEETHEART DEALS ELSEWHERE. SIR EGERTON RICHARDSON MADE A LENGTHY AND IMPASSIONED SPEECH IN WHICH HE DENOUNCED THIS PROPOSAL AS AN EFFORT TO FORCE THEM INTO A CARTEL WITH OTHER PRODUCERS. THIS ARGUMENT THOROUGHLY CONFUSED THE INDUSTRY SINCE IT SEEMED TO PUT THE PARTIES TO THE NEGOTIATION ON THE WRONG SIDE OF THE FENCE. THE MEETING BROKE UP WITH THOSE MEETINGS SCHEDULED FOR TODAY CANCELLED AND NO NEW MEETINGS OF ANY KIND SCHEDULED. HOWEVER, PRINCIPALS ON THE INDUSTRY SIDE ARE REMAINING IN KINGSTON AND HAVE MADE CLEAR THAT THEY ARE READY TO NEGOTIATE WHEN THERE IS ANYTHING TO DISCUSS.

4. MATALON CALLED CHARGE THIS MORNING AND A LENGTHY CONVERSATION ENSUED IN WHICH HE REPLAYED MUCH OF THE PREVIOUS EVENING'S DISCUSSION FROM HIS ANGLE, DENOUNCED THE COMPANIES FOR "BREAKING OFF THE NEGOTIATIONS" AND SAID THAT HE WAS ABOUT TO GO SEE THE PM FOR INSTRUCTIONS. CHARGE INDICATED STRONGLY THE HOPE THAT NEGOTIATIONS COULD CONTINUE TO A SATISFACTORY SOLUTION AND EXPRESSED THE VIEW THAT UNILATERAL ACTION ON THE PART OF THE GOJ AT THIS TIME WAS PREMATURE AND UNWISE. MATALON RESPONDED THAT, IF HE HAD HIS WAY, HE WOULD GO TO LEGISLATION TODAY, BUT THE PM WAS IN CONTROL. CHARGE REMINDED MATALON OF HIS COMMITMENT AND THE PM'S TO A CONSULTATION WITH THE DEPT BEFORE TAKING UNILATERAL ACTION. MATALON ACKNOWLEDGED THE COMMITMENT BUT DID NOT REQUEST AN APPOINTMENT IN THE DEPT EITHER FOR HIMSELF OR FOR THE PM. HE SAID HE WOULD BE IN TOUCH IF SUCH AN APPOINTMENT WAS REQUIRED. LATER IN THE MORNING HE CALLED BACK PRIMARILY TO DISCOVER WHETHER A REPORT HE HAD HEARD THAT THE PRINCIPAL INDUSTRY REPS WERE LEAVING THE ISLAND WAS TRUE. CHARGE ACKNOWLEDGED THAT CHAPMAN ROSE WAS OFF THE ISLAND FOR THE DAY ON PRIVATE BUSINESS, BUT SAID THAT HE UNDERSTOOD CUTLER AND THE INDUSTRY PRINCIPALS WERE REMAINING AND WERE READY FOR DISCUSSIONS AT ANY TIME. MATALON INDICATED THAT HE AND HIS COLLEAGUES HAD SEEN THE PM, AND HE DECLINED A SOCIAL INVITATION ON THE GROUNDS THAT THEY WERE BUSY WRITING A PAPER. ONCE

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AGAIN, HE DID NOT REQUEST THE ARRANGEMENT OF APPOINTMENTS IN WASHINGTON.

5. COMMENT: AS PREDICTED, THE CRUNCH HAS COME. INDUSTRY INFORMS US THAT THEIR OFFER IS BASED ON AGREEMENT BETWEEN THE CHIEF EXECUTIVE OFFICERS OF THE COMPANIES IN A MEETING HELD LAST WEEK IN WASHINGTON AND FOR ALL PRACTICAL PURPOSES IT IS THE FINAL OFFER AT LEAST IN THE ABSENCE OF ANOTHER CONCLAVE OF CEOs. GOVT CONT-

INUES TO BE MARRIED BOTH TO ITS REVENUE PROPOSAL AND TO APR 29
DEADLINE. THE FAILURE OF MATALON TO MENTION A WAHINGTON TRIP
EVEN AFTER HE HAD SEEN THE PM IS PUZZLING. IT MAY SIMPLY BE A
CASE OF DELAYING UNTIL THEY HAVE THEIR DUCKS IN A ROW. ON THE
OTHER HAND IT MAY BE A CASE OF THE DOG THAT DID NOT BARK IN THE
NIGHT.
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